

# Quartix Holdings

**Software & comp services**
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## Fleet business powers 2017 growth

Quartix is a UK-based telematics firm with growing recurring revenues from fleets in the UK, US and France as well as a driver monitoring system 'Powered-by-Quartix', which it sells into the insurance and fleet markets. The group has been investing heavily in building marketing and distribution in the US and France, which has had a negative effect on costs in recent years. Nevertheless, the potential from these markets adds to what we see as Quartix's "invest for a generation" features, which include high 70% recurring revenues, low customer churn (10%), major management buy-in (CEO Andy Walters owns 37%), a cash-rich balance sheet and FY17 yield of 3.8%. The stock trades at a substantial premium to the sector on an FY18e P/E of 29.5x, but for long-term investors this may be a price worth paying.

## Back to double-digit growth after insurance pull-back

The group increased its fleet subscriber base by 20% to 105,200 in FY17. Sales channel optimisation drove 16% growth in the UK subscriber base to 83.2k while expanding marketing channels and investment in management led to the French and US subscriber bases growing by 31% and 48%, to 13.0k and 9.1k respectively. This helped fleet subscription revenues, which make up 70% of group revenues, grow by 14%. Nevertheless, group revenue rose by only 5%, (10% y-o-y in H217) due to management's decision to withdraw from lower-margin sales to insurers, a reflection of its ongoing focus on profitability.

## Growing pains, future gains

The recruitment of new management, higher share-based payment expense and expansion into new marketing channels in the US and France affected overall costs and contributed to a 1.0pp decline in the FY17 EBITDA margin to 27.7%.

Management intends to increase marketing spend in the US in FY18 to build a network of distributors to leverage staff investments and implement a new marketing automation platform in H217. We expect this strategy to contribute to earnings momentum from FY19 helped by the strong R&D-fed product pipeline.

## Valuation: Quality comes at a price

Quartix trades on relatively high valuation multiples, with its FY18e P/E of 29.5x sitting at a c 67% premium to the telematics sector. We believe this reflects the group's strong growth prospects and defensive features, as discussed above, as well as the support of its current yield. The tightly held nature of the stock, with its low free float of 26%, should be noted by investors requiring liquidity.

### Historical financials and consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/15	19.7	6.0	10.5	6.0	34.3	1.7
12/16	23.3	6.5	12.8	11.2	28.1	3.1
12/17	24.5	6.6	12.3	13.5	29.3	3.8
12/18e	26.2	6.8	12.2	10.2	29.5	2.8

Source: Thomson Reuters

**Price** **360p**  
**Market cap** **£171m**

### Share price graph



### Share details

Code	QTX
Listing	LSE
Shares in issue	47.6m

### Business description

Founded in 2001, Quartix (QTX) is a leading UK provider of tracking and telematics data analysis solutions for commercial fleets and 'pay as you drive' motor insurance. Expansion into the French and US fleet markets has helped QTX achieve a 22% CAGR in fleet tracking subscriptions over the last five years.

### Bull

- Strong SaaS growth prospects in the US & French markets and in the UK via sales channel optimisation.
- Quality business: 70% recurring revenues, strong profit focus, low attrition, net cash BS, own IP.
- Well positioned to benefit from new regulation and rise of PAYG insurance demand impetus.

### Bear

- Trades at a c 67% premium to FY18e P/E.
- Increasing telematics installations by OEMs is a long-term threat but most fleets will still need analytics services to work for all vehicle brands and ages.
- The intermittent rise of cut-price competitors in the product arena, eg in driver safety, is a potential source of volatility in the product stream.

### Analysts

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